



Quarterly Report
January 1 to March 31, 2011

Highlights of the first quarter of 2011

- Business going exactly according to plan
- Sales growth of 7% compared to the previous year
- Earnings remain at a high level
- Release order lead time twice as long as in 2008

The first quarter 2011 at a glance

in EUR thousands	01/01/2011 – 03/31/2011	01/01/2010 – 03/31/2010	Change in %
Sales	16,934	15,759	7 %
EBITDA	3,525	3,433	3 %
EBIT	2,445	2,202	11 %
Net earnings for period	1,794	2,183	-18 %
Earnings per share in EUR	0.44	0.53	-18 %
Liquidity	13,544	7,845	73 %
Employees**	316	249	27 %

* Not directly comparable due to the period of then pending insolvency proceedings (January 1 to May 31, 2010)

** Employees with fixed contracts, excluding contract workers

Overall Economic Conditions

The recovery in the global economy has once again accelerated in the past few months, according to the findings of the Institut für Weltwirtschaft, Kiel (ifw). The economic slowdown that occurred in the summer months of 2010 proved to be transitory.

Economic recovery has progressed so far in Germany that production capacity utilization is normal once again. The sustained upswing is being borne to a great extent by domestic demand. Germany is approaching full employment in 2011 with an unemployment rate of 7.1 percent.

The automotive industry is again part of a positive trend after an impressive upward movement in 2010. Passenger car registrations were up considerably in many foreign markets. German manufacturers have started 2011 well with double-digit growth. Order receipts and new registrations in the domestic market rose especially steeply.

Business Developments at paragon AG

In the first quarter of 2011 paragon AG was exactly in line with planning for the entire fiscal year. In connection to the industry-wide recovery, the Company benefited from the growth in numbers of units in almost all product groups. As a result sales rose vis-à-vis the same period in the previous year by 7% to EUR 16.9 million (Q1 2010: EUR 15.8 million).

Due to a number of special factors, the period from January 1 to March 31 of 2011 is not directly comparable to the first three months of the past year. Since paragon had initiated insolvency proceedings in the first quarter of 2010, numerous cost items were influenced as a result. This involved personnel and financial expenses above all, which did not reflect their customary levels.

During the course of fiscal 2010 the Company once again raised these cost items to necessary and tolerable levels. Despite additional expenses in connection with new orders, paragon was able to achieve EBITDA and EBIT figures in the first three months of 2011 that exceeded the results of the first quarter of 2010 and even the margins of 2010 as a whole (EBITDA and EBIT in relation to sales). This means that the Company's earnings continue to be clearly above the average for automotive suppliers in Germany.

Financial Position and Net Assets

Total assets as at March 31, 2011, rose to EUR 44.7 million compared to EUR 39.4 million as at March 31, 2010.

Non-current assets decreased from EUR 19.3 million to EUR 17.5 million due to customary wear and tear. Current assets rose by EUR 7.1 million to EUR 27.2 million (Q1 2010: EUR 20.1 million), the result in particular of an increase in cash and cash equivalents from EUR 7.8 million to EUR 13.5 million. Inventories rose by EUR 1.8 million to EUR 7.0 million due to higher production volumes related to the robust economic conditions in the industry, while trade receivables decreased by EUR 0.9 million to EUR 5.5 million.

Non-current provisions and liabilities rose from EUR 14.1 million to EUR 20.7 million. This increase was due in large part to the assumption of the insolvency share loan (EUR 12.7 million), valued at EUR 9.9 million as at March 31, 2011, and the collateral redemption loan in the amount of EUR 2 million. A significant reduction was evidenced in current provisions and liabilities to EUR 17.7 million (Q1 2010: EUR 122.0 million) primarily in response to de-recognition of loans, profit-sharing rights and trade payables in connection with the administration of the insolvency plan dated May 31, 2010.

paragon achieved a significantly higher level of liquidity at EUR 13.5 million (Q1 2010: EUR 7.8 million). The clearly positive cash flow from operating activities of EUR 1.3 million highlights the Company's operating profitability. In the area of financing activity, considerably lower loan payments (EUR 1.5 million instead of EUR 2.5 million in the same period of the previous year) have a positive impact.

Results of Operations

The noteworthy growth in sales of 7% also defined paragon AG's results of operations from January 1, 2011, to March 31, 2011. Despite more elevated cost items, in the first quarter of 2011 the Company was able to surpass the exceptionally high earnings figures from the same period in the previous year, during which no interest or taxes were required to be paid due to the then pending insolvency proceedings.

As previously mentioned, personnel expenses rose to EUR 4.3 million compared to EUR 2.6 million in the previous year due to the integration of employees from the former subsidiary, paragon finesse GmbH (as at September 1, 2010), the expansion of the second management level and recruitment to fill several open posts in the first quarter. While material costs were up from EUR 8.6 million to EUR 9.1 million, the ratio of the cost of materials to sales improved by 1%. In total EUR 0.2 million was capitalized in the quarter for new projects in accordance with IAS 38. EBIT increased from EUR 2.2 million to EUR 2.4 million compared to the same period in the previous year.

As at March 31, 2011, paragon AG posted net profits for the year of EUR 1.8 million according to IFRS; in comparison with the previous year (EUR 2.2 million), it should be noted that interest and taxes are once again being paid (totaling EUR 0.6 million). EBITDA rose from EUR 3.4 million to EUR 3.5 million.

Research & Development

Strong business trends during the first quarter of 2011 led to wide-ranging development work on new products. Key projects in Delbrück included equipping a customer transmission with an all-gear sensor, the series release for the redesign of the rear-view camera, a steering controller for stepper motors and clock motors, as well as a stepper motor with a larger display range. At the Nuremberg location the focus was on the serial digital connection of microphones and loudspeakers, a universal coupler tank for wireless connection of cell phones and the expansion of the Media Extender. Total research and development costs amounted to EUR 1.2 million (Q1 2010: EUR 0.7 million) in the period between January 1 to March 31, 2011.

Employees

As at March 31, 2011, paragon AG employed 316 of its own workers and 60 temporary workers, all of whom were active in Germany alone. In other words, due to the favorable business trend, the number of employees has continued to rise since the last reporting date (December 31, 2010: 304 employees and 39 temporary workers). The increase was even more pronounced in comparison to the first quarter of the prior year (March 31, 2010: 249 employees and 24 temporary workers), largely as a consequence of the acquisition of the assets of the former subsidiary, paragon finesse GmbH, effective September 1, 2010. The following headcount applied to the individual facilities as at March 31, 2011 for employees and temporary staff: Delbrück (54/0), Suhl (192/42), Nuremberg (22/4) and St. Georgen (48/14).

Investor Relations

Lateral movement with intermittent highs and lows characterized the development of the German share index (Deutsche Aktien Index – DAX) during the first quarter of 2011. The leading index started the new year at 6,990 points on January 3. Due to positive developments in the German economy, the DAX had climbed to 7,427 points by February 18. The environmental and nuclear crisis in Japan had an adverse impact on the capital markets in the middle of March, so the index dropped to 6,500 points. It had only just exceeded the 7,000 mark by March 31, 2011.

The paragon share was subject to similar fluctuations. On the second trading day of 2011 the share achieved its highest value since the automotive crisis at EUR 13.75. In reflection of the developments in Japan the price slumped to EUR 7.99 in the middle of March, but recovered again by the end of the quarter and was quoted at EUR 9.09.

The Managing Board of paragon AG brought the relationship with the capital markets to a whole new level through numerous initiatives. In addition to many individual discussions with shareholders and potential investors, as well as regular reporting, there were several events related to investor relations in the period under review. This included the Small & Mid Cap Conference of Close Brothers Seydler Bank AG on February 2 in Frankfurt am Main and the press conference presenting the balance sheet for the partial fiscal year from June 1 to December 31, 2010, on March 29 in Delbrück. Furthermore, on February 15 the renowned Dr. Kalliwoda Research GmbH published its first research study on paragon; analysts calculated a fair value of EUR 19.43 for the paragon share.

Securities Identification Number:	555 869
ISIN:	DE 000 555 8696
Ticker symbol:	PGN
Trading segment:	Prime Standard
Sector:	Technology

Risk Report

The Managing Board of paragon AG assesses risks in close consultation with the Supervisory Board. The Company perceives excellent opportunities for continued upward momentum, thanks to the robust economic conditions in the automotive industry, which have been clouded only slightly by reports from Japan. paragon itself was only affected by potential supply problems in Japan with respect to a single component, for which a comparable replacement product is available in China, so no bottle-necks were experienced. Significantly lower debt and efficient restructuring contribute to the rosy prospects. At the time of publication of this report, no additional risks have been identified that might jeopardize the Company's continued existence.

Outlook

From the point of view of the Institut für Weltwirtschaft (ifw) a series of factors indicate that economic growth will lose its momentum during 2011. Nevertheless, experts are assuming that global production will rise by 4.3 percent in the current year. Again, expansion will come primarily from developing and emerging countries.

The ifw anticipates slightly accelerated production expansion in the first half of 2011, because weather-related failures have to be compensated and investment activity is once again gearing up. The institute forecasts a rise in price-adjusted gross domestic product by 2.8 percent for the year as a whole. Job growth will continue upwards according to estimates by ifw experts.

The German Automotive Industry Association (Verband der Deutschen Automobilindustrie – VDA) has a positive outlook for the industry in 2011. Provided that the global economy continues to develop without disruptions, world-wide passenger car sales are likely to rise again by 7 percent in the current year to approximately 66 million units. The VDA

anticipates a volume of over 3.1 million vehicles for the domestic passenger car markets. The German brands are considered "outstandingly positioned" in key regions according to information from the Association.

According to the Managing Board, the favorable trend experienced by paragon AG in the past year will continue in the course of 2011. The first quarter has confirmed management's expectations, which reflected a small increase in sales vis-à-vis the previous year with equivalent profit margins (2010: EBITDA 16.9 % of sales, EBIT 8.6 % of sales). What is remarkable is that at the end of the first quarter the volume of orders on hand already represents 97.2% of the sales projected for the entire fiscal year 2011, so that paragon has a stable planning base. Contract release orders, or orders placed in advance for later release, encompass a period of nearly eight months. This is the first time in paragon's history that the Company has had such a long lead

time for release orders. The lead time for contract release orders has more than doubled since 2008.

It is becoming increasingly obvious that paragon is headed in the right direction with its focus on premium cars and products that enhance comfort, safety and health. It is precisely the German manufacturers, with whom paragon is listed as a direct supplier, who can continue to increase their market share, above all due to the comfort features in their vehicles. The improvement of energy efficiency and the expansion of in-vehicle networking are opening up additional opportunities for the Company. Whether with novel power train sensors, the unique belt microphone or modern interfaces, paragon contributes to the manufacturers' ability to fulfill the changing wishes and needs of driver and passenger. paragon is currently setting the course for further expansion of production capacities at the Suhl and St. Georgen production sites.

Consolidated Balance Sheet of paragon AG, Delbrück, as at March 31, 2011

in EUR thousands	03/31/2011	03/31/2010
Assets		
Non-current assets		
Intangible asset	3,070	4,189
Property, plant and equipment	13,649	14,284
Financial assets	0	180
Other assets	151	0
Deferred taxes	670	638
Total non-current assets	17,540	19,291
Current assets		
Inventories	7,033	5,225
Trade receivables	5,489	6,420
Income tax assets	196	0
Other assets	899	571
Cash and cash equivalents	13,544	7,845
Total current assets	27,161	20,061
Total assets	44,701	39,352

in EUR thousands	03/31/2011	03/31/2010
Liabilities		
Equity		
Subscribed capital	4,115	4,115
Capital reserve	7,753	7,753
Loss carried forward	- 7,405	- 110,828
Net income/comprehensive income	1,793	2,183
Total equity	6,256	- 96,777
Non-current provisions and liabilities		
Non-current finance lease obligation	380	496
Non-current borrowings	15,060	7,841
Special item for investment grants	3,267	4,415
Deferred taxes	0	108
Pension provisions	2,041	1,236
Total non-current provisions and liabilities	20,748	14,096
Current provisions and liabilities		
Current portion of finance lease obligations	333	359
Current borrowings and current portion of non-current borrowings	4,745	37,733
Profit-participation certificates	0	22,852
Trade payables	5,491	9,121
Other provisions	2,551	5,823
Income tax liabilities	261	2,228
Other current liabilities	4,316	43,917
Total current provisions and liabilities	17,697	122,033
Total equity and liabilities	44,701	39,352

**Consolidated Income Statement of paragon AG, Delbrück,
for the Period from January 1 to March 31, 2011**

in EUR thousands	First Quarter 2011 01/01 – 03/31/2011	First Quarter 2010 01/01 – 03/31/2010
Sales revenue	16,934	15,759
Other operating income	656	580
Increase or decrease in finished goods and work in process	421	337
Other own work capitalized	267	66
Total operating performance	18,278	16,742
Cost of materials	- 9,053	- 8,574
Gross profit	9,225	8,168
Staff costs	- 4,317	- 2,639
Depreciation and amortization of property, plant and equipment	- 1,080	- 1,231
Other operating expenses	- 1,383	- 2,096
Earnings before interest and taxes (EBIT)	2,445	2,202
Financial income	1	0
Finance costs	- 339	- 37
Net financing costs	- 338	- 37
Earnings before taxes	2,107	2,165
Income taxes	- 314	18
Net income	1,793	2,183
Earnings per share (basic)	0.44	0.53
Earnings per share (diluted)	0.44	0.53
Average number of shares outstanding (basic)	4,114,788	4,114,788
Average number of shares outstanding (diluted)	4,114,788	4,114,788

Consolidated Cash Flow Statement of paragon AG, Delbrück, in accordance with IFRS

in EUR thousands	01/01 - 03/31/2011	01/01 - 03/31/2010
Cash flow from operating activities		
Earnings before income taxes	2,107	2,165
Depreciation of property, plant and equipment	1,080	1,231
Net financing costs	337	37
Increase (+), decrease (-) in other provisions and pension provisions	- 58	468
Income from the release of the special item or investment grants	- 201	- 316
Other non-cash income and expense	0	- 66
Increase (-), decrease (+) in trade receivables, other receivables, and other assets	- 1,547	- 2,227
Increase (-), decrease (+) in inventories	- 561	- 798
Decrease (+), Increase (-) in trade payables and other liabilities	860	687
Interest paid	- 339	- 37
Income taxes paid	- 413	36
Net cash provided by/used in operating activities	1,265	1,180
Cash flow from investing activities		
Payments for investments of property, plant and equipment	- 197	- 155
Payments for investments in intangible non-current assets	- 272	0
Interest received	1	0
Net cash provided by/used in investing activities	- 468	- 155
Cash flow from financing activities		
Cash repayments of borrowings	- 1,451	- 2,540
Amounts paid insolvency rate	- 122	0
Cash proceeds from issuing borrowings	639	0
Repayment of liabilities under finance lease	- 109	0
Net cash provided by/used in financing activities	- 1,043	- 2,540
Cash-effective change in liquidity	- 246	- 1,515
Cash and cash equivalents at beginning of period	13,790	9,360
Cash and cash equivalents at end of period	13,544	7,845

Consolidated Statement of Changes in Equity of paragon AG, Delbrück

in EUR thousands	Subscribed capital	Capital reserve	Profit- / loss carried forward	Net income/ comprehensive income	Total
Balance as of 06/01/2010	4,115	7,753	- 10,574	0	1,294
Net income				3,169	3,169
Comprehensive income			100,254	3,169	3,169
Balance as of 12/31/2010	4,115	7,753	- 10,574	3,169	4,463
in EUR thousands	Subscribed capital	Capital reserve	Profit- / loss carried forward	Net income/ comprehensive income	Total
Balance as of 01/01/2011	4,115	7,753	- 7,405	0	4,463
Net income				1,793	1,793
Comprehensive income	4,115	7,753	- 7,405	1,793	6,256
Balance as of 03/31/2011	4,115	7,753	- 7,405	1,793	6,256

Shares held by members of the Managing and Supervisory Boards as at March 31, 2011

Capital stock: 4,114,788 shares

	Shares 03/31/2011
Managing Board, total	2,111,730
Supervisory Board, total	0
Boards, total	2,111,730
as % of share capital	51.32

Additional Disclosures

The report on the first three months has been prepared using the uniform accounting principles of the International Financial Reporting Standards (IFRS), which were also used for the short fiscal year from June 1, 2010, to December 31, 2010. The standards of the International Accounting Standards Board (IASB) and the interpretations of the International Financial Reporting Interpretations Committee (IFRIC) apply. The form and content of the quarterly report comply with the reporting requirements of the German stock exchange. The quarterly report represents an update of the

annual report. Its emphasis is on the current reporting period and it should be read in conjunction with the annual report and the additional information contained therein.

The risk situation of paragon AG was covered in detail in the report on risks and opportunities in the annual report for the partial fiscal year from June 1, 2010, to December 31, 2010. Statements made in the report regarding the delayed date of publication and overall risk continue to apply.



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